

It's time to reward tax whistleblowers

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The FT reports in an email this morning that:

A whistleblower who helped expose false accounting at Deutsche Bank has turned down a multimillion-dollar award from the Securities and Exchange Commission in protest against the agency's failure to punish executives at the bank.

The spurned sum amounts to millions of dollars. I can only presume that the whistleblower in question is in the fortunate position of being financially secure despite his actions. If so that is exceptional: most whistleblowing comes at considerable personal emotional and financial cost, including the loss of a job and reduced chance of finding another one. This, unsurprisingly, deters people from whistleblowing and yet time after time we know that some of the best data that not only leads to prosecutions but also changes behaviour comes from whistle blowers. Think of recent tax haven disclosures from HSBC and Panama and that is obvious.

This is precisely why I have always said that tax whistleblowers should be paid. I think the minimum should be ten percent of the sum recovered. The option to pay up to thirty percent if the risk from making disclosure is high should be available. The tax penalty regime alone should cover the cost, but that's not the point. Three consequences would follow.

First there would be more disclosures.

Second HMRC would be under more pressure to act: public pressure would demand it.

Third the quality of leads should improve.

The result would be greater tax compliance and a change in taxpayer behaviour as perceptions of risk changed. That has to be a win. Which is why we need to put proper whistleblowing reward arrangements in place.